



**Credit Union National Association
2011 Governmental Affairs Conference**

Remarks by

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Good morning. It's been a tough couple of years. I thought you might need some soothing music. Actually, I picked that song for three reasons. It's a great tune by guitarist/songwriter Patty Larkin. It's a tribute to my friend Mark Wolff of CUNA who for the last 15 years has been responsible for putting together this great conference and who introduced me to Patty Larkin's music. And, last but not least, the tune is called *Banish Misfortune/Open Hand* which I think has poetic relevance to how most of us feel as we weather this economic crisis, particularly the "banish misfortune" part.

I think it's fair to say that neither credit unions nor the country have fully recovered from the events that began in 2008. The credit union system and NCUA are working through these tough times and there is light at the end of this tunnel. NCUA had to take dramatic steps to prevent the corporate credit union crisis from crippling the entire credit union system. Not all have agreed with NCUA's actions; however, this was a period of time that mandated swift and decisive measures to avoid untenable consequences.

But if recovery is to be fully achieved by credit unions, credit unions need to find and actively pursue new avenues for growth. This includes

being open to implementing more collaborative business models since the need to earn more net income has never been greater.

NCUA, as an agency, as a regulator, as an insurer, must also recognize that we should not drive you to be completely risk-averse. You need the room to pursue avenues of growth; our job is to make sure that you do so safely and soundly and in a manner that appropriately manages risk. Our examination and supervision efforts must continue to focus on how credit unions do to manage their changing risk. We must design and apply regulations that will prevent as much loss to the system as possible without stifling new and innovative opportunities for well-run credit unions to serve their members. We must never forsake our regulatory responsibilities, but we must undertake those responsibilities in a common sense manner so that the pendulum does not swing too far in any one direction -- either with too much regulatory oversight or too little.

So, how do we accomplish this? How do we manifest a regulatory environment where the credit union model has the chance to survive going forward? I have two ideas.

The first idea comes from a proposal by the distinguished Senator Mark Warner from my home state, the great Commonwealth of Virginia. In a December 13, 2010 opinion piece in *The Washington Post*, Senator Warner outlined a “pay as you go” regulatory system. He is drafting legislation that would require federal agencies to identify and eliminate one existing regulation for each new regulation they want to add. “Regulatory pay-go,” as he has termed it, would discourage agencies from continually churning out new rules because they would be required to eliminate one outdated or duplicative regulation of the same approximate economic impact for each new regulation they want to enact.

Now, before you get too excited, let’s look at NCUA’s current system. Under IRPS 87-2, as amended by IRPS 03-2 (“IRPS”), NCUA reviews all its regulations every three years to update, clarify and simplify existing regulations and eliminate any redundant or unnecessary provisions. This means that each year, we review one-third of our regulations. The IRPS provides: “It is the policy of NCUA to ensure that its regulations: impose only minimum required burdens on credit unions, consumers, and the public; are appropriate for the size of the financial institutions regulated by NCUA;

are issued only after full public participation in the rule making process; and are clear and understandable.” The IRPS also specify that NCUA will prepare and make available for public comment an initial regulatory flexibility analysis for any regulation that will have a significant economic impact on a substantial number of small entities. Credit unions having less than ten million dollars in assets are considered “small entities.”

My belief is that it is time to update and modernize IRPS 87-2 and IRPS 03-2 given the significantly different circumstances for credit unions in 2011. For example, in 2003 when the NCUA Board amended the 1987 policy statement, it noted the percentage of federally insured credit unions (FICUs) captured under the \$1 million asset standard had decreased from 63 percent in 1981 to 12 percent in 2002. The increase in the threshold to \$10 million would capture approximately 52 percent of FICUs, a percentage much closer to the percentage captured by the asset standard when first adopted.

We need to ensure that we are continuing to fully comply with the intent of the policy. In particular, I believe NCUA should seriously consider revising the definition of “small entity” to a larger number, perhaps from \$10 million to \$50 million. I also believe we should be more clearly documenting

how we comply with the intent stated in the IRPS. I'll be pursuing these revisions with NCUA staff and my Board colleagues.

Second, there must be capital reform for credit unions. This means, most importantly, amending prompt corrective action or "PCA" and it means convincing Congress to authorize supplemental capital for credit unions. As you may know, in April 2010, I issued a white paper on supplemental capital for credit unions with an internal NCUA working group that I formed. It is important for you to know that the NCUA Board has taken no action on the White Paper and that it is not official NCUA policy. For now, it is a document that is useful to help further the dialogue on this important topic.

Based on our review and analysis, the NCUA Working Group made three important observations and conclusions:

We concluded affording credit unions the ability to raise supplemental capital that counts towards PCA "net worth" requirements is an appropriate policy consideration;

Equally as important, PCA regulatory reform, including a more robust risk-based capital system, should continue to be pursued as a priority. In fact, we concluded that if PCA regulatory reform could be achieved, it would

significantly enhance the credit union systems' ability to effectively manage capital. Moreover, we opined that the current PCA statutory requirements for credit unions are too rigid and establish a structure based primarily on a "one-size-fits all" approach. This creates inequities for credit unions with low-risk balance sheets. It limits NCUA's ability to have a more relevant risk-based requirement and it fosters accumulation of capital levels in excess of what is needed for most credit unions' safety and soundness and strategic needs. PCA reform combined with supplemental capital could afford credit unions the opportunity to much more effectively and precisely manage capital levels;

Third, we concluded that any statutory change that affords credit unions the ability to count supplemental capital towards PCA "net worth" must be accompanied by robust regulatory authority to assure reasonable safeguards and risk parameters are put in place.

These two ideas are responsive to the changing environment credit unions and the agency are encountering. I believe they can help modernize the regulatory landscape so that safety and soundness is achieved without stifling new opportunities for credit unions to serve their members.

As I've said in every speech I've made at this conference, the power of the credit union system is you – the people: the CEOs, volunteers, staff, GAC Crashers who come to this event to network, learn and lobby your legislators. Your power is in mutuality, in cooperation and collaboration, in identifying mutual interests with your colleagues and expanding the dialogue. Whether collaboration happens informally or through shared service arrangements or through CUSOs, collaboration, in all its forms, is a necessary part of the future of credit unions. We all need to adapt to that reality sooner rather than later.

In closing, may the misfortunes of the past several years be promptly banished and may you, representatives of the credit union system, embrace a bright future with open hands, minds and hearts.

Thank you for listening.